

Kazakstan Community Loan Fund

[Annual Report for the Period October 1997 through September 1998]

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KAZAKSTAN COMMUNITY LOAN FUND

SEMI-ANNUAL REPORT:

October 1997 – March 1998

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SUMMARY

The Kazakhstan Community Loan Fund (KCLF) has made significant progress during the past six months. In November 1997 KCLF received its license from the National Bank of Kazakhstan to operate as a non-banking financial intermediary. During the reporting period KCLF began lending operations (November), held several training sessions for its program staff, and identified a MIS program to track and monitor loan use. KCLF is now gearing up its staff capacity to expand outreach and serve a larger number of clients throughout Taldykorgan.

PROGRAM ACCOMPLISHMENTS

KCLF received its license from the National Bank of Kazakhstan on November 6, 1997. This license allows KCLF to operate as a non-banking financial intermediary that can disburse currency loans to small businesses throughout Kazakhstan. This is a significant achievement as KCLF is the only organization to successfully complete the requirements for this license in Kazakhstan.

Key Program Indicators

On November 22, KCLF disbursed loans to 21 loan group members in Taldykorgan. Although loans have been disbursed for only five months, KCLF is only slightly behind its projected targets for year one (See Table 1). Loan disbursement began later than expected due to extensive delays by the National Bank of Kazakhstan to issue KCLF's license. Due to this late start in loan disbursements, the amount of outstanding portfolio is lower than expected, which is a result of fewer clients taking second and third tier loans (loans sizes of \$250-\$350). The amount of outstanding loan portfolio will increase significantly as the program retains more repeat lenders.

Table 1
Key Program Indicators

	YEAR 1 (PROJECTED)	AS OF MARCH 1998
Number of Loans Outstanding	192	111
Outstanding Loan Portfolio	\$60,096	\$9,974
Delinquency	6%	0%
Loan Loss Rate	3%	1%
Return on Operations	28%	5%

Portfolio Outreach

As indicated in Table 2, KCLF has been able to maintain near perfect repayment, with arrears of less than 1 percent and a high percentage of females participating in the project. Over the past six months, 139 loans were disbursed for a total of \$18,520. In the coming months, KCLF will continue to expand its outreach and should achieve its targets by the end of year two.

Table 2
Summary Portfolio Outreach
October 1997 – March 1998

PORTFOLIO/OUTREACH	AMOUNT/NUMBER
Number of active loans (as of beginning of Oct. 97)	0
Number of active loans (at the end of March 98)	111
Number of loans disbursed	139
Amount Disbursed	\$18,520
Arrears (unpaid balance on loans with payments more than 30 days overdue)	1%
Percentage Female Clients	79%
Number of Staff	10
Effective Annual Interest Rate	48%
Local, Annual Bank Lending Rate	18.5%
Local Inflation Rate (Source: NBK)	12%

Personnel Changes

From November 17, 1997 through April 17, 1998, the new ACDI/VOCA Country Representative for Kazakhstan was responsible for the oversight and management of KCLF. As of April 17, 1998, Ms. Janice K. Stallard was hired as KCLF's new Project Director. Ms. Stallard had been working in Cairo, Egypt for the last four years on another USAID-funded small and micro enterprise program. She was hired by ACDI/VOCA as KCLF's Project Director to ensure KCLF's operational sustainability over the next 18 months.

PROGRAM ACTIVITIES

Training

Two training activities were held during the reporting period. These included one training seminar for new Enterprise Agents (EAs) and a leadership training for active Enterprise Agents.

Judith Kaufman, KCLF's Senior Advisor, organized the new EA training seminar. Pat Garvin, an ACDI/VOCA volunteer, assisted in the training's implementation. Held in February, this training used a Trainer-of-Trainers methodology that supported the transfer of skills to KCLF staff. This training focused on teaching the group formation process and building confidence among EA candidates. As a result of the training, four new permanent EAs were hired by KCLF.

A leadership-training seminar was also held for the Enterprise Agents in September 1997. The objective of this training was to provide EAs with the skills to lead and facilitate groups, to organize and plan meetings, and to hold meetings and make decisions in a participatory manner. Over twenty individuals attended this successful training which was video taped for future use.

Technical Assistance Assignment

In February 1998 a consultant was hired to review and assess all cash management systems and to identify program indicators for KCLF's Management Information System. The consultant, Phil Brown, performed an in-depth review of KCLF's loan systems including record keeping at the peer group level, accounting systems, and disbursement procedures. In addition, Mr. Brown's assignment consisted of: (1) refining the program's site survey form; (2) reviewing KCLF's effective interest rate policy; (3) evaluating group lending records; and (4) reviewing all KCLF forms related to financial management.

Mr. Brown worked with KCLF staff to provide them with practical, day-to-day recommendations regarding their lending activities and management of the program. An important outcome of this assignment was the human resource development of the entire staff in addition to the selection of a MIS program.

Operations Manual

During March and April, KCLF began the development of a detailed Operations Manual. Lauren Hendricks and Ben Steinberg, an ACIDI/VOCA Program Officer and FtF Volunteer, drafted the Manual over a two-week period spent in Kazakhstan. This Manual outlines the following:

- Personnel Policies
- Lending Policies
- Communication Policies
- Cash Management Procedures
- Loan Collection Procedures and Policy
- Delinquency Policy
- Kazakhstani Legal and Tax Requirements
- Reporting Requirements

The Manual is being reviewed by KCLF staff and ACIDI/VOCA's technical assistance team, and will be finalized and translated into Russian over the next few months.

FINANCIAL MANAGEMENT

As indicated in the following tables (Table 3, 4, 5) KCLF is on its way to becoming a self-sustainable micro credit organization. Table 3 below presents a summary financial statement with KCLF's return on operations. While still low at 5 percent, this number is representative of an organization in its start-up phase.

Table 3
Summary Financial Statement (Oct. 97 – March 98)

ACTIVITIES	AMOUNT
Outstanding loan amount (beg of period)	0
Outstanding loan amount (end of period)	\$9,974
Average monthly outstanding	\$1,662
Number of loans outstanding (end of period)	111
Average loan size ¹	\$133
Delinquency	0
Long run loss rate	1%
INTEREST RATES	AMOUNT
Program Interest Rate	48%
InterState Bank Lending Rate	18.5%
Inflation Rate ²	12%
CLIENT REVENUES	AMOUNT
Interest Income	\$688
Fee Income	\$537
Total Client Revenue	\$1,225
NON-FINANCIAL EXPENSES	AMOUNT
Administrative ³	\$25,581
Depreciation of Fixed Assets ⁴	\$516
Loan Loss Provision ⁵	\$499
<i>Sub-Total</i>	\$26,596
Cost of Funds	\$308
<i>Total Expenses</i>	\$26,904
Return on Operations	5%

Notes:

1. Average loan size was calculated based on the total amount disbursed divided by the total number of loans disbursed during the period.
2. Source: NBK
3. Administrative expenses do not include those of the ACDI/VOCA expatriate staff.
4. Depreciation of fixed assets calculation has been based on Kazakhstani legal standards, i.e. 30% annual depreciation over 40 months.
5. Loan loss provision is set at 5% of the outstanding loan amount.

Tables 4 and 5 present KCLF's income and expenses and balance sheet. As shown in the tables, KCLF operated at a loss during the first six months of operation and will continue to do so for another 15 – 18 months. During this time, however, it is projected that administrative costs will be maintained while revenues will increase significantly. As an indication of this, April's revenues were approximately \$700 - which would bring KCLF a return on operations of around 10 percent for the month of April.

Table 4
Income and Expenses

INCOME	AMOUNT
Interest and Fee Income	\$688
Other Operating Income	\$537
Total Income	\$1,225
EXPENSES	
Salaries and Benefits	\$15,941.14
Other Administrative	\$9,639.74
Loan Loss	\$100
Bank Fees	\$273
Non-Operating Income	0
Non-Operating Expenses	0
Operating Profit/Loss	(24,356)

Table 5
Balance Sheet

ASSETS	AMOUNT
Cash on Hand and in the Bank	\$6,362
Mandatory Reserves	0
Short-term Investments	0
Loans Outstanding	111
Loan Loss Provisions	(\$499)
Outstanding Portfolio	\$9,974
Long-term Investments	0
Fixed Assets (after depreciation)	\$2,921
Other Assets	0
Total Assets	\$18,757
LIABILITIES	
Client Savings	0
Other Deposits	0
Loans from Central Bank	0
Loans from other Banks	0
Other Short-term Liabilities	0
Other Long-term Liabilities	0
EQUITY	
Paid in Equity (shareholders)	0
Donated Equity ¹	\$43,113
Retained Earnings	0
Other Capital Accounts	0
Current Year Profit/Loss	(\$24,356)

Total Liabilities and Equity	\$18,757
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Notes:

1. This is based on funds received from USAID during the reporting period.

FUTURE ACTIVITIES

KCLF has two major challenges in the next six months. The first is building the in-house capacity of staff to refine its methodology and build a solid lending program that can effectively reach a large number of small businesses throughout Taldykorgan. Second, KCLF must look to streamline its operations and expand outreach in order to lower its operating costs and increase revenues.

A series of programmatic activities will also take place during the next six months, including the development of a brochure and video on KCLF, installation of the new MIS, hiring a part-time Project Director and a KCLF loan processor, and translation of the Operations Manual into Russian. These activities will be reported in the next semi-annual report.

KAZAKSTAN COMMUNITY LOAN FUND

SEMI-ANNUAL REPORT:

April 1998 – September 1998

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SUMMARY

The Kazakhstan Community Loan Fund (KCLF) has made significant progress over the past six months. During the reporting period, KCLF held several training sessions, hired an Accountant, Loan Processor, Secretary, Computer Specialist, 4 new Enterprise Agents (EAs), and promoted one EA to be the first Senior EA. Along with its staff growth, KCLF has been able to expand its outreach throughout Taldykorgan and as of the end of September, had 903 active borrowers.

A documentary video was made of the KCLF program and methodology during the reporting period. This task was performed by an ACDI/VOCA volunteer. KCLF will use the video as a promotional vehicle with its donors and client population.

KCLF has become a recognized member of the Taldykorgan community. Small businesses and other social leaders are becoming increasingly well-informed about KCLF's mandate and activities. As a result, KCLF receives a growing number of walk-ins and referrals every week.

PROGRAM ACCOMPLISHMENTS

Key Program Indicators

As shown in Table 1, KCLF is outperforming its key program indicators projected for the end of year two. This is mainly a result of the large number of active clients KCLF has reached through its loan program. As of the end of September, KCLF supports almost triple the number of businesses originally projected in the USAID cooperative agreement. The small difference in outstanding portfolio reflects the smaller than projected average loan size. This is a result of lending to the poorest members of Taldykorgan and maintaining loan sizes that are in-line with client needs.

Table 1
Key Program Indicators

	YEAR 2 (PROJECTED)	AS OF SEPTEMBER 1998
Number of Loans Outstanding	336	903
Outstanding Loan Portfolio	\$150,240	\$117,251
Delinquency	6%	.04%
Loan Loss Rate/Arrears	3%	.002%
Return on Operations*	58%	55%

* Not including provisions or the cost of funds.

Portfolio Outreach

As indicated in Table 2, KCLF has maintained a very sound financial base of operations. KCLF has disbursed almost one quarter of a million dollars through 1,700 loans since it opened its doors in November 1997. At the same time, delinquency has been kept extremely low at around .04 percent.

KCLF continues to serve its target population of female entrepreneurs, with 82 percent of all borrowers being female clients. KCLF also supports many of the most needy members of the Taldykorgan population through its assistance to business start-ups. As of September 1989, KCLF has helped over 120 entrepreneurs launch new businesses.

KCLF has also helped over 700 entrepreneurs expand and diversify their businesses through loans and technical support. In addition, over 420 jobs have been created and retained through KCLF's credit services.

Table 2
Summary Portfolio Outreach
October 1997 – September 1998

PORTFOLIO/OUTREACH	AMOUNT/NUMBER
Number of active loans (as of Oct. 1997)	0
Number of active loans (as of September 1998)	903
Number of loans disbursed (cumulative)	1,700
Amount Disbursed (cumulative)	\$248,123
Arrears (unpaid balance on loans with payments more than 30 days overdue)	.002%
Percentage Female Clients	82%
Number of Staff	20
Effective Annual Interest Rate	48%
Local, Annual Bank Lending Rate	18.5%
Local Inflation Rate (Source: NBK)	11%

While continued growth and low delinquency are important, KCLF must also strive to serve its clients with services they demand and are willing to pay for. KCLF's low client dropout rate (<1%) is an indication that the program does meet these criteria and provides a service that is needed and affordable.

PROGRAM ACTIVITIES

Training

Three training activities were held during the reporting period. These included a training seminar for new Enterprise Agents (EAs), leadership training for active Enterprise Agents, and a delinquency workshop.

Judith Kaufman, KCLF's Senior Advisor, organized and taught the new EA training seminar in June. This training focused on teaching the group formation process and building confidence among EA candidates. As a result of the training, four new permanent EAs were hired by KCLF.

A leadership-training seminar was also held for the Enterprise Agents in August 1998. The objective of this training was to provide EAs with the skills to lead and facilitate groups, to organize and plan meetings, and to hold meetings and make decisions in a participatory manner. In addition to EAs, other administrative staff attended this training to introduce themselves to this new kind of decision-making process.

The KCLF Project Director, Janice Stallard, conducted a delinquency workshop in August. The goal of the workshop was to introduce preventative concepts of delinquency to the staff. Through an interactive program with group activities and individual problem-solving, KCLF staff developed their own set of rules and procedures regarding how to prevent delinquency. These include visiting all businesses throughout the group formation process, visiting each client immediately upon loan disbursement, continuous interaction with groups to monitor potential problems, and a series of programmatic steps to be taken when a client becomes delinquent.

Volunteer Assignment

In June, ACIDI/VOCA brought a volunteer to Kazakhstan to shoot a documentary film on KCLF's program and methodology. The assignment was completed by Ms. Holly Sanders who is a video production specialist in the United States with over 30 years of film making experience.

Ms. Sander's assignment lasted two weeks. During this time, she interviewed key experts in the field of micro-enterprise development in Kazakhstan in addition to filming and interviewing over 20 clients, KCLF staff training, and all KCLF personnel. Ms. Sanders also filmed scenes from Almaty, Taldykorgan and the surrounding countryside to supplement the documentary narrative.

The video will be available in English and Russian and will serve KCLF as an important promotional and informational tool. The video will be used to inform new and current donors about KCLF's activities and to inform potential, new clients in Taldykorgan about the background and methodology of the program. This video will be an important asset to KCLF to expand its outreach and donor base in the years ahead.

Impact Activities

A full-time Peace Corps Volunteer has been working with KCLF since July. The PCV, Anita Wright, will serve in KCLF's Business Development Services (BDS) Unit in a variety of capacities including conducting surveys and workshops.

Ms. Wright has begun an impact study that entails site visits to over 30 businesses a month. A formal questionnaire is used to discuss with clients a range of issues regarding the program and their opinions on needed changes. Questions deal with the following topics:

- How clients use their loan
- Jobs created through loan use
- Sales and income increases/decreases
- Problems with the loan program
- Concerns/problems regarding KCLF staff members
- Length of time to receive first and repeat loans
- Changes/improvements they would like in the program

Ms. Wright makes a weekly report based on this survey to the Program Director in Taldykorgan who takes action on key issues that are raised. An "Access" database program has also been developed to support the documentation of all the data gathered through this exercise.

Over the next six months, Ms. Wright will expand her activities to include working on KCLF's newsletter and launching a sub-sector study. The newsletter is being used as a promotional vehicle to tell clients and non-clients about the program. The sub-sector study will begin in January through a series of workshops with clients and non-clients to identify an appropriate technical assistance area for KCLF's BDS Unit to expand its services.

Brochure and Newsletter

In April, KCLF designed and printed a client brochure. This 2-page brochure was developed to ensure that prospective clients receive a uniform description about the program and its activities. In addition, EAs use the brochure as a tool to introduce the program to potential clients and often write their names and home telephone numbers of the back.

In September, KCLF issued its first project newsletter called Isker (or entrepreneur in Kazak). This will be a bi-monthly newsletter to inform clients about policy changes, provide statistical data on the program and clients, and to announce important dates. One page of the newsletter is devoted to advertisements from clients which is anticipated to cover the cost of production and distribution of the newsletter.

A newsletter Committee has been formed from representatives of the administrative staff and Enterprise Agents. This Committee will solicit comments and article suggestions for the newsletter from the staff and clients. The Committee will also be responsible for identifying clients interested in advertising in the newsletter as well as its production and distribution.

Personnel

A number of significant personnel decisions were taken in the past six months. First, four new Enterprise Agents were hired as a result of new EA training in June. As of September, these EA are very active and have over 50 clients each.

Several new administrative staff members were also hired to keep up with KCLF's rapid rate of growth. These include a new Accountant, Loan Processor, Translator, Computer Specialist, and Secretary. This came at a time when the previous Program Director left KCLF and was replaced through an internal promotion of the Chief Accountant.

A Senior EA position was developed and announced in September. The Senior EA position will act as a mentor and guide to all Enterprise Agents. A competitive process was completed to select the new Senior EA that included a series of interviews with interested candidates. One EA was selected and promoted to the new position. Although there are currently two EA Coordinators, the new Senior EA will provide the Coordinators with additional support and hands-on guidance to the growing cadre of Enterprise Agents.

KCLF now has 20 staff members and will remain at this level through the winter months. A new EA training is being planned for February 1999.

Streamlining Activities

In July, KCLF staff completed a major effort to refine its existing set of forms. As a result, a new, 2-page business profile (i.e., loan application) form has been made that more clearly introduces the concepts of cash/flow and a balance sheet. A new 1-page repeat loan application has also been developed that allows clients to more simply apply for repeat loans. Not only do these new forms lower the transaction costs of KCLF's clients but makes programmatic assessment of new loan applicants more streamlined and efficient.

In addition to facilitating client systems, KCLF also revised a series of internal forms. As a result, 5 forms were consolidated into 2 forms that more readily meet the needs of KCLF's Management Information Systems and saves paper.

The completion of these activities will support KCLF's growth and cost efficiencies in the months ahead.

FINANCIAL MANAGEMENT

As indicated in the following tables (Table 3, 4, 5) KCLF is on its way to becoming a self-sustainable micro credit organization. Table 3 below presents a financial statement with KCLF's return on operations. As of the end of September, KCLF is covering more than half of its operational expenses from its revenues (55%). This number will continue to rise dramatically as loan disbursements continue to grow at around 35% a month. KCLF is well on its way to reaching operational break-even by the end of its USAID grant in October 1999.

Table 3
Financial Statement
(September 98)

ACTIVITIES	AMOUNT
Outstanding loan amount	\$117,251
Number of loans outstanding	903
Average loan size ¹	\$146
Delinquency	.04
Long run loss rate	.002%
INTEREST RATES	AMOUNT
Program Interest Rate	48%
InterState Bank Lending Rate	18.5%
Inflation Rate ²	11%
CLIENT REVENUES	AMOUNT
Interest Income	\$3,585
Fee Income	\$679
Total Client Revenue	\$4,294
NON-FINANCIAL EXPENSES	AMOUNT
Administrative ³	\$ 7,787
Depreciation of Fixed Assets ⁴	\$120
Loan Loss Provision ⁵	\$1,173
<i>Sub-Total</i>	\$9,080
Cost of Funds	\$1,806
<i>Total Expenses</i>	\$10,886
Return on Operations (including the cost of funds, provisions, and depreciation)	40%
Return on Operations (not including cost of funds or provisions)	55%

Notes:

1. Average loan size was calculated based on the total amount disbursed divided by the total number of loans disbursed during the period.
2. Source: NBK
3. Administrative expenses do not include those of the ACDI/VOCA expatriate staff.
4. Depreciation of fixed assets calculation has been based on Kazakhstani legal standards, i.e. 30% annual depreciation over 40 months.
5. Loan loss provision is set at 1% of the outstanding loan amount, based on KCLF's historical average of less than 1% arrears.

Tables 4 and 5 present KCLF's income and expenses and balance sheet. As shown in the tables, KCLF continues to operate at a loss but is expected to reach break-even by October 1999. During this time, it is projected that administrative costs will be maintained while revenues will increase significantly. This will allow KCLF to reach a level where its interest and fee generated revenues exceed its administrative expenses.

It is still uncertain whether KCLF will be able to achieve financial sustainability by the end of October 1999. That would mean that its revenues would cover the cost of depreciation, provisions, and the cost of funds. Given the fact that only one-year remains in the grant, financial sustainability may not be achievable by next October. Still ACDI/VOCA is confident that KCLF will be able to secure additional funding for its loan capital that will allow it to continue growing beyond 1999.

KCLF's staff recognizes the importance of becoming financially independent and considers this issue with each decision it makes. As such, ACDI/VOCA is confident that KCLF will be able to continue its operations beyond the USAID grant through its own interest and fee generated revenue. However, it will take work in the years beyond that point to find commercial sources of funding that will allow KCLF to reach financial sustainability.

Table 4
Income and Expenses
(April - September 1998)

INCOME	AMOUNT
Interest and Fee Income	\$13,855
Other Operating Income	0
Total Income	\$13,855
EXPENSES	
Salaries and Benefits	\$23,458
Other Administrative	\$14,807
Loan Loss	0
Bank Fees	\$1,345
Non-Operating Income	0
Non-Operating Expenses	0
Operating Profit/Loss	(25,755)

Table 5
Balance Sheet
(April – September 1998)

ASSETS	AMOUNT
Cash on Hand and in the Bank	\$45,414
Mandatory Reserves	0
Short-term Investments	0
Loans Outstanding	903
Loan Loss Provisions	0
Outstanding Portfolio	\$117,251
Long-term Investments	0
Fixed Assets (after depreciation)	\$13,167
Other Assets	0
Total Assets	\$175,832
LIABILITIES	
Client Savings	0
Other Deposits	0
Loans from Central Bank	0
Loans from other Banks	0
Other Short-term Liabilities	0
Other Long-term Liabilities	0
EQUITY	
Paid in Equity (shareholders)	0
Donated Equity ¹	\$201,587
Retained Earnings	0
Other Capital Accounts	0
Current Year Profit/Loss	(\$25,755)
Total Liabilities and Equity	\$175,832

Notes:

1. This is based on funds received from USAID and Soros Foundation during the reporting period.

FUTURE ACTIVITIES

The next six months will focus on two key issues: developing a Board of Directors and identifying new sources of funds for KCLF's lending capital. Activities on BOD development began in September 1998 with the first official meeting to take place on October 29, 1998. At this meeting, KCLF's donor representatives, KCLF staff, ACDI/VOCA and KCLF clients will discuss the future challenges ahead for KCLF and what steps must be taken to meet this challenge. It is hoped that through this meeting, KCLF will identify active clients who are interested in taking part in its new Board and the running of KCLF in the future.

Given its current rate of growth, KCLF will use its \$302,000 of lending capital in early 1999.¹ Before that time, KCLF must identify new sources of financing its growth. This will be critical to ensure its overall financial health and sustainability. Potential donor organizations include the Soros Foundation, the Eurasia Foundation, and HIVOS.

¹ Lending capital commitments include \$202,000 from USAID and \$100,000 from the Soros Foundation.